Report

of the

Examination of

John Alden Life Insurance Company

Milwaukee, Wisconsin

As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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November 12, 2004

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

JOHN ALDEN LIFE INSURANCE COMPANY
Milwaukee, WI

and this report is respectfully submitted.

I. INTRODUCTION

John Alden Life Insurance Company (JALIC or the company) redomiciled from Minnesota to Wisconsin effective July 15, 2002. The current examination is the first examination of the company performed by the Commissioner. The examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's aggregate accident and health reserves and evaluated asset adequacy analysis. The results of the actuary's work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

John Alden Life Insurance Company is a Wisconsin-domiciled stock life insurance company. JALIC was originally incorporated under the laws of Illinois on January 10, 1961, and commenced business on June 1, 1961, under the name John Alden Life Insurance Company. The company name was changed to Gamble Alden Life Insurance Company in 1968. On December 31, 1973, the company effected a redomestication from Illinois to Minnesota by merger with and into Gamble Alden Life Insurance Company of Minnesota (GALIC Minnesota). Concurrent with the 1973 merger, GALIC Minnesota changed its name to Gamble Alden Life Insurance Company. The name of the company was changed to John Alden Life Insurance Company, the name presently used by the company, effective March 31, 1979.

JALIC was acquired by Great Western Financial Corporation (GWFC) in 1983. The holding company, John Alden Financial Corporation (JAFCO), was established in 1987 as a management-led buy-out to acquire John Alden Life Insurance Company and certain JALIC subsidiaries. In 1987, JAFCO purchased Houston National Life Insurance Company (HNLIC), a Texas-domiciled insurer, and HNLIC subsequently purchased from GWFC 100% ownership interest of John Alden Life Insurance Company.

During 1997, the company sold two significant blocks of business. On March 31, 1997, JALIC sold substantially all of its annuity operations to SunAmerica, Inc. The sale included coinsurance of substantially all of the company's annuity business. On September 30, 1997, JALIC sold its interest in the Western Diversified Group, a group of companies that offered credit life and disability and retail service warranty insurance, to Protective Life Insurance Company.

Effective August 31, 1998, JAFCO and all of its subsidiaries including the company were purchased by Interfinancial, Inc., a subsidiary of Fortis, Inc. (n/k/a Assurant, Inc.). Fortis, Inc., was a wholly owned U.S. holding company subsidiary of Fortis Insurance N.V., which in turn is a holding company subsidiary of European-based Fortis, an international financial services holding company. Ownership interest of the Fortis enterprise is jointly held by Fortis N.V., a corporation domiciled in the Netherlands, and Fortis S.A./N.V., a corporation domiciled in Belgium.

Fortis N.V. and Fortis S.A./N.V are diversified international insurance, banking, and investment companies that have merged their subsidiary operating companies under the trade name Fortis. Upon the 1998 Fortis acquisition of the John Alden Life Insurance Company, the company's operations were transferred to the Fortis Health business unit operations located in Milwaukee, Wisconsin.

JALIC redomiciled from Minnesota to Wisconsin effective July 15, 2002. Effective July 1, 2003, the company executed a statutory merger through which its immediate parent, Houston National Life Insurance Company, merged with and into the company. As part of the merger, all of the issued common and preferred stocks of JALIC were canceled, the issued common stock of HNLIC was canceled, and one share of JALIC's common stock was issued for each seven shares of the former HNLIC. The transaction was accounted for as a statutory merger, and prior-year financial information for the surviving combined entity has been restated to provide comparability.

Fortis, Inc., established Assurant, Inc., as a Delaware corporation, and merged into Assurant, Inc., effective February 4, 2004. As a result of the merger, Assurant, Inc., is the successor U.S. holding company to the business operations of Fortis, Inc. Effective February 5, 2004, an initial public offering of the common stock of Assurant, Inc., was transacted on the New York Stock Exchange. Subsequent to the 2004 IPO, the ownership interest of Assurant, Inc., held by Fortis Insurance, N.V., decreased to approximately 35% of Assurant, Inc.'s outstanding common capital stock, with the remaining 65% ownership of Assurant, Inc., held by other diverse investors.

As is summarized above, John Alden Life Insurance Company is a member of a holding company system. JALIC does not have any employees, and all of its business operations are performed by holding company affiliates pursuant to intercompany services agreements. Further discussion of the holding company organization, description of the company's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

In 2003 the company wrote direct premium in the following states:

Texas	$108,492,737	15.7%
Illinois	66,777,708	9.7
Ohio	42,670,947	6.2
Indiana	39,024,513	5.7
Michigan	32,804,557	4.7
All others	400,482,727	58.0
Total	$690,253,189	100.0%

John Alden Life Insurance Company is licensed in the District of Columbia, in all state jurisdictions except New York, and in Guam, the U.S Virgin Islands, and Canada.

The company's primary business is the issuance of accident and health insurance, and its business segment focus is individual and small employer group insurance. The company's individual health products are primarily for annually renewable major medical coverages. Most of the company's individual health products are Preferred Provider Organization plans which enable the insured to elect any health care provider and provide for higher benefit reimbursements when health care is rendered by a participating network provider. The company offers a Medical Savings Account feature for its individual health products whereby insured may participate in a tax-sheltered savings account to fund insured's payment of medical expenses including coverage co-payments and deductibles. The company also markets short-term medical insurance for persons who require interim health coverage.

The company's small employer group products are marketed primarily to groups of from two to fifty employees. The average group size as of year-end 2003 was five employees. Almost all of the current group benefit policies are PPO plans, and offer a package of employee benefits programs including group medical, group life, group AD&D, group dental, and group short-term disability.

Individual medical products are also marketed through national accounts relationships. Company marketing channels include NorthStar Marketing, an affiliate that conducts marketing through independent agents.

The following chart is a summary of the premium income reported by the company in 2003. The growth of the company is discussed in the Financial Data section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Whole life	$ 1,041,448	$ 2,512	$ 920,115	$ 123,845
Universal life	11,821,749		11,821,749	
Immediate annuities	1,078,980		1,078,980	
Credit life	(188)		(36)	(152)
Group life	13,578,591		36,116	13,542,475
Group A&H	609,011,323	1,451,446	303,961,266	306,501,503
Credit A&H	(261)		(174)	(87)
Other A&H	54,988,711	158,484	37,028,420	18,118,775
Total All Lines	$691,520,353	$1,612,442	$354,846,436	$338,286,359

III. MANAGEMENT AND CONTROL

Board of Directors

The JALIC board of directors consists of four members. Each of the directors is elected annually to serve a one-year term. Officers are elected by the directors at the board's annual meeting. Each member of the company’s board of directors is an employee within the Assurant, Inc., enterprise, and may also be a member of other boards of directors in the holding company group. The directors do not receive specific compensation or reimbursement for serving on the board of John Alden Life Insurance Company.

Currently the JALIC board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
J. Kerry Clayton Summit, NJ	President and CEO Assurant, Inc.	2005
Robert B. Pollock New York, NY	Executive Vice President and CFO Assurant, Inc.	2005
Donald G. Hamm, Jr. Mequon, WI	President and CEO Assurant Health	2005
Steven J. DeRaleau Lake Forest, IL	Executive Vice President Chief Marketing Officer Assurant Health	2005

Officers of the Company

The executive officers of John Alden Life Insurance Company serving at the time of this examination are listed below. Each officer of JALIC is a direct employee of Fortis Insurance Company (FIC), and his or her annual employment compensation is remitted by FIC. A portion of the annual compensation costs paid to FIC employees, including individuals who serve as JALIC officers, is allocated from FIC to JALIC pursuant to intercompany services agreements.

Name	Office	2003 Compensation
Donald G. Hamm, Jr.	President and Chief Executive Officer	$526,689
Christina R. Palme-Krizak	Senior VP, Secretary, and General Counsel	*
Howard C. Miller	Senior VP, CFO and Treasurer	371,655
Brian N. Rees	Vice President and Appointed Actuary	211,330

* Ms. Palme-Krizak was appointed to the office of Secretary in 2004. She was not employed by FIC prior to 2004 and was not subject to FIC employment compensation in 2003.

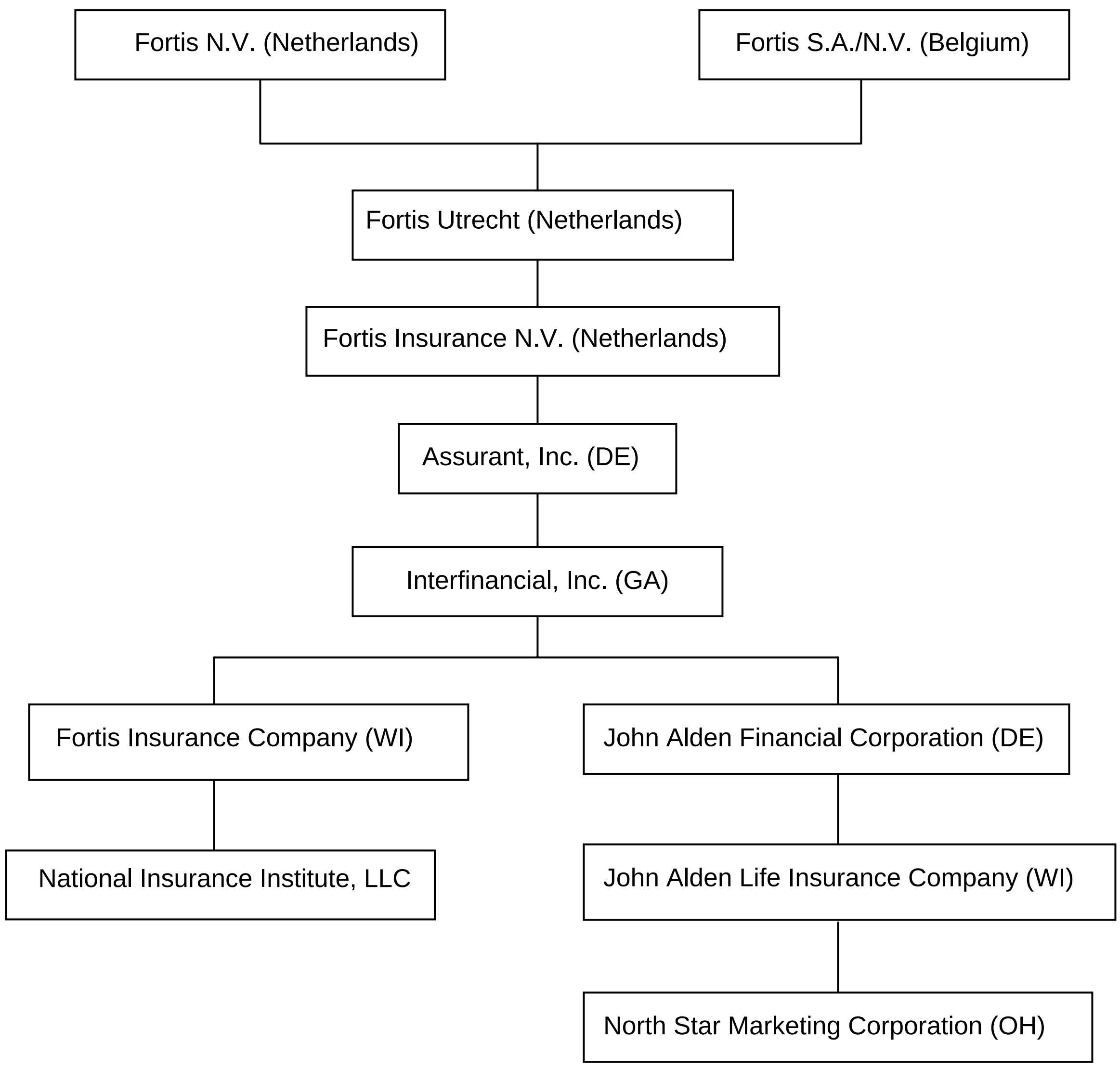
Committees of the Board

The company's bylaws authorize the formation of certain committees by the board of directors. The company has not established any committees of the board of directors at the time of the examination.

IV. AFFILIATED COMPANIES

John Alden life Insurance Company is a member of a holding company system. The organizational chart below depicts the present relationships among the affiliates in the group. A brief description of significant affiliates follows the organizational chart.

Fortis Insurance Company
Organizational Chart



Fortis N.V. and Fortis S.A./N.V. (Fortis)

Fortis N.V. is a limited-liability corporation domiciled in the Netherlands, and Fortis S.A./N.V. is a limited-liability corporation domiciled in Belgium. Fortis N.V. and Fortis S.A./N.V. are diversified international financial services companies that have combined their operating companies under the trade name Fortis. The group's banking operations are conducted through Fortis Bank S.A./N.V., and insurance operations are conducted through Fortis Insurance Holding N.V.

In 2001 the ownership shares of Fortis N.V. and Fortis S.A./N.V. were merged into a single publicly traded Fortis share. Each holder of a Fortis share is a shareholder of both Fortis N.V. and Fortis S.A./N.V., and has the right to vote at the meetings of shareholders of both companies. Each Fortis shareholder may elect to receive either a Fortis N.V. or a Fortis S.A./N.V. dividend. The Fortis group is an international provider of insurance, banking, and investment products and services.

The following are summarized financial data from the Fortis consolidated financial statements as of December 31, 2003 (in millions Eurodollars and U.S. dollars):

	EUR	USD
Net Profit	2,197.4	$ 1,750.7
Total Assets	523,250.0	416,873.3
Total Liabilities	507,026.0	403,947.6
Risk-bearing Capital	16,224.0	12,925.7
Net Equity	11,894.2	9,476.1

(Revenue by business segment)

	EUR	USD
Total Revenue – Insurance	22,698.2	$18,083.7
Net profit – Insurance	897.5	715
Net Revenues – Banking	7,783.7	6,979.6
Net profit – Banking	1,495.2	1,191.2

(Conversion rate at 12/31/03 – 1 EUR = USD 0.7967)

Fortis Insurance Holding N.V.

Fortis Insurance Holding N.V. is domiciled in the Netherlands and serves as an intermediate holding company, existing solely for the purpose of holding operating insurance subsidiaries within the Fortis group. Effective December 31, 2003, Fortis Insurance Holding N.V. owned 100% of the common stock of Fortis, Inc. Subsequent to the 2004 merger of Fortis, Inc., into Assurant, Inc., and the issuance of public shares of Assurant, Inc., common stock, the ownership interest of Fortis Insurance Holding N.V. in Assurant, Inc., decreased to approximately 35% interest.

Assurant, Inc. (f/k/a Fortis, Inc., as of December 31, 2003)

Assurant, Inc., is a Delaware-domiciled holding company and is the ultimate U.S.-domiciled parent of Fortis Insurance Company. Fortis, Inc., the predecessor of Assurant, Inc., established and merged into Assurant, Inc., in February 2004. Assurant, Inc., transacted an initial public offering of its common stock on the New York Stock Exchange on February 5, 2004. As a result of the IPO, approximately 35% of the ownership interest of Assurant, Inc., is retained by the European-domiciled Fortis holding company, and the remaining 65% ownership interest is held by other Assurant, Inc., investors.

Assurant, Inc., serves as the parent company for the Fortis group's U.S. operations. Assurant, Inc., is an insurance and financial services holding company that through its subsidiaries operates in five decentralized operating business segments, including the Assurant Health, Assurant Employee Benefits, Assurant Solutions, Assurant PreNeed, and Corporate Operations business units.

As of December 31, 2003, the consolidated GAAP basis audited financial statements of Assurant, Inc., reported total assets of $23.7 billion, total liabilities of $21.1 billion, and total stockholders equity of $2.6 billion. Operations for 2003 produced net income of $185.7 million.

Interfinancial, Inc.

Interfinancial, Inc., is incorporated under the laws of the state of Georgia, and is the direct parent of Fortis Insurance Company, John Alden Life Insurance Company, and Fortis Benefits Insurance Company. Interfinancial, Inc., is a wholly owned intermediate holding company within the Assurant, Inc., organization, and does not have profit or loss activity.

Fortis Insurance Company (FIC)

FIC is a Wisconsin-domiciled life insurer originally incorporated in Wisconsin on February 11, 1910, under the name Time Insurance Company. The name of the insurer was changed to Fortis Insurance Company effective April 1, 1998. FIC is the lead insurer in the Assurant Health business segment, and provides individual and small group medical and group life insurance coverages through a network of independent agents. FIC is licensed in the District of Columbia and in all state jurisdictions except New York and Hawaii. FIC is subject to a financial examination report prepared as of December 31, 2003, issued concurrently with this examination report of JALIC.

As of December 31, 2003, the statutory basis audited financial statements of FIC reported total admitted assets of $736,485,306, total liabilities of $560,763,013, and total policyholders surplus of $175,722,293. Operations for 2003 produced net income of $94,924,495.

Fortis Benefits Insurance Company (FBIC)

FBIC is an Iowa-domiciled life insurance company, and was originally incorporated in 1910 in Minnesota. FBIC redomiciled from Minnesota to Iowa on October 1, 2004. FBIC is the lead insurer in the Assurant Employee Benefits business segment, and its principal business focus is the provision of group employee benefit and individual pre-need products. FBIC is a major provider of group dental benefit plans sponsored by employers, and also provides disability and term life products and services to small- and medium-sized employer groups. FBIC is licensed in the District of Columbia, in all state jurisdictions except New York, and in Canada.

As of December 31, 2003, the statutory basis audited financial statements of FBIC reported total admitted assets of $8,011,166,460, total liabilities of $7,450,270,359, and total policyholders surplus of $560,896,101. Operations for 2003 produced net income of $121,896,422.

Agreements with Affiliates

The company has entered into various intercompany agreements for the provision of investment management services, business operations services, and income tax allocation. The intercompany agreements of the company are described below.

<u>Federal Income Tax Allocation Agreement</u>

The company participates in a Federal income tax allocation agreement between and among Assurant, Inc., and its affiliates. The agreement provides for the allocation of federal income taxes in accordance with provisions of Treasury Regulations s. 1.1552-1 and s. 1.1502-33, whereby the aggregate tax liability of the Assurant, Inc., group is allocated to the member companies on a separate company income tax return basis. Settlements for tax liability under the allocation agreement are to be made within 30 days of the Assurant, Inc., filing of the actual consolidated federal corporate income tax return with the Internal Revenue Service. In the event that a refund is due to the combined group, Assurant, Inc., may defer payment to the other members of the group for a period not to exceed 30 days from Assurant, Inc.'s receipt of such refund.

Investment Management Agreement

The company and Assurant, Inc., maintain an agreement under which Assurant, Inc., provides to the company investment management services for the maintenance and administration of the company's investment portfolio. Services provided by Assurant, Inc., include the following:

(a) General investment advice.
(b) Investment accounting.
(c) Establishment of company brokerage and custodial accounts and other arrangements for trading and safekeeping.
(d) Performance of all other functions necessary to manage the investment portfolio and to assist the company in its development of investment strategy.

The agreement provides that investment management services performed by Assurant, Inc., must conform to the company's investment guidelines and to applicable regulatory guidelines. The company pays an annual fee for services based on the market value of the investment portfolio as of June 30 of the immediately preceding year. All expenses related to Assurant, Inc., management of the company's investment portfolio, including brokerage fees and commissions, custodian charges, interest expense, taxes, and auditing and legal expenses, are allocated to and paid by the company.

Management Services Agreement

The company and Assurant, Inc., maintain a management services agreement whereby Assurant, Inc., and its subsidiary companies provide various management services to the company. The services provided for under the agreement include the following:

(a) Risk management and provision of certain liability insurance coverages.
(b) Administration of employee benefit plans in which Assurant, Inc., personnel participate, including all monitoring, accounting, plan development, certain plan contributions, and servicing.
(c) Design, development, and administration of executive compensation programs and plan contributions.
(d) Centralized staff and support services, including internal and external audit, accounting, financial reporting, tax advice, preparation and review of tax returns,

legal, human resources recruitment, employee training and development, special or unique actuarial, and management consulting.

(e) Advice regarding strategic and operational matters, assistance in developing business plans and budgets, general asset and liability management, advice regarding risk-based and other capital systems.

(f) Advertising, marketing, public relations and government affairs services.

(g) Rating agency coordination.

The company pays an annual fee for services equal to the company's allocated portion of Assurant, Inc.'s net allocable operating expenses for the year, determined by Assurant, Inc., based on appropriate and rational allocation methods that are in conformity with customary insurance accounting practices.

Administrative Services Agreement

The company is party to a services agreement with FBIC for the provision of administrative and other services relating to JALIC group dental insurance coverages. Services performed by FBIC include claim processing and payment, policyholder services, maintenance of records, daily preparation of claim disbursements, and maintenance of a toll-free 800 telephone number for customer calls. The agreement requires that JALIC pay to FBIC a monthly capitation fee plus an hourly consulting fee at scheduled rates if FBIC performs certain types of consultant services upon the prior written request of the company. Settlement of balances due under the services agreement is performed monthly.

Discretionary Agency Agreement

The company is party to an agreement between Assurant, Inc., and certain of its affiliates and Marshall and Ilsley Trust Company (M&I) which establishes a securities lending facility on behalf of the Assurant, Inc., companies. The agreement appointed M&I as agent for the purpose of lending securities, and authorized M&I to conduct securities lending activities in accordance with standards established by the lender companies. The agreement requires that, concurrent with borrower receipt of loaned securities, M&I will take delivery of collateral equal to 102% of the market value of the loaned securities plus accrued and unpaid interest and dividends. The agreement provides that M&I will perform a daily mark-to-market of loaned securities, and will perform all required ancillary services in support and maintenance of the securities lending activity.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below: The contracts contain proper insolvency provisions.

Ceded Reinsurance Agreements

50% Ceded Coinsurance—Individual and Group Medical Insurance

The company has established reinsurance agreements with three reinsurers whereby the company recognizes cession of an aggregate of 50% coinsurance on its individual and group health insurance policies. Examination review determined that, although coinsurance in form, the reinsurance treaties function as stop-loss reinsurance and not as proportional reinsurance. Further description of the contracts is included in the examination findings section of this report captioned “Reinsurance Contracts.”

100% Ceded Coinsurance and Reinsurance Assumption—Long-Term Care Insurance

Effective March 1, 2000, the company established a reinsurance agreement with John Hancock Life Insurance Company (John Hancock) whereby the company transferred to John Hancock all of the company’s net liability for long-term care insurance policies. The agreement is structured as a sale of the business line, and provides for JALIC cession of net risks to John Hancock on a 100% coinsurance basis. LifeCare Assurance Company, a third-party administrator, is the administrator of the business. The 2000 transaction resulted in a statutory basis after-tax gain of $3.9 million to the company, which is deferred and was recorded by the company as unrealized gain. The unrealized gain is amortized into income in future accounting periods as maturing policies terminate and are removed from the book of business, thereby releasing JALIC’s contingent liability as the original issuer of the business. In 2003, the company recognized amortized gains of $153,334, and ceded $2,859 of premiums and $1.3 million of reserves to John Hancock.

100% Ceded Coinsurance—Individual Life and Annuity Insurance

Effective April 1, 2001, the company entered into a reinsurance agreement with Hartford Life Insurance and Annuity Company (Hartford) for the transfer to Hartford of business comprised of certain individual life insurance policies and annuity business written by the company. The agreement is structured as a sale of the business line, and provides for JALIC cession of risks to Hartford on a 100% modified coinsurance basis. Concurrently, HNLIC which is now merged into the company, also entered in to a comparable reinsurance agreement with Hartford. Hartford is the administrator of the business. The 2001 cessions by HNLIC and the company resulted in a statutory basis gain of $7.3 million to JALIC, which is deferred and was recorded by the company as unrealized gain. The unrealized gain is amortized into income in future accounting periods as maturing policies terminate and are removed from the book of business, thereby releasing JALIC's contingent liability as the original issuer of the business. In 2003, the company recognized amortized gains of $897,000, and ceded $7.9 million of premiums and $12.5 million of reserves to Hartford pursuant to the reinsurance agreement.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner in the December 31, 2003, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the previous five-year period, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

John Alden Life Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$533,474,186	$ 1,000	$533,473,186
Stocks:			
Preferred stocks	15,959,957		15,959,957
Common stocks	38,008		38,008
Mortgage loans on real estate:			
First liens	32,947,332		32,947,332
Cash	(11,684,060)		(11,684,060)
Short-term investments	38,620,971		38,620,971
Contract loans	22,371,079		22,371,079
Other invested assets	5,337,771		5,337,771
Receivable for securities	13,990		13,990
Investment income due and accrued	6,951,475		6,951,475
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	4,235,666		4,235,666
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	496,415		496,415
Reinsurance:			
Amounts recoverable from reinsurers	2,644,081		2,644,081
Other amounts receivable under reinsurance contracts	1,233,526		1,233,526
Net deferred tax asset	13,049,233	3,229,828	9,819,405
Guaranty funds receivable or on deposit	2,774,611		2,774,611
Investment income due and accrued			
Receivable from parent, subsidiaries and affiliates	2,819,721		2,819,721
Health care and other amounts receivable	4,397,319	2,916,651	1,480,668
Write-ins for other than invested assets:			
Advances on aggregate stop loss	190,130	190,130	
Prepaid expenses	355,135	355,135	
Escrow recoverable	13,329	0	13,329
Total Assets	$676,239,875	$6,692,744	$669,547,131

John Alden Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Aggregate reserve for life contracts		$285,391,120
Aggregate reserve for accident and health contracts		31,317,023
Liability for deposit-type contracts		548,003
Contract claims:		
Life		3,658,550
Accident and health		55,211,563
Premiums and annuity considerations received in advance		15,394,370
Contract liabilities not included elsewhere:		
Other amounts payable on reinsurance		26,344,266
Interest maintenance reserve		821,689
Commissions to agents due or accrued		3,265,006
General expenses due or accrued		23,780,290
Taxes, licenses, and fees due or accrued, excluding federal income taxes		4,434,237
Current federal and foreign income taxes		6,378,664
Unearned investment income		597,226
Amounts withheld or retained by company as agent or trustee		1,006,744
Remittances and items not allocated		5,102,672
Net adjustment in assets and liabilities due to foreign exchange rates		211,896
Miscellaneous liabilities:		
Asset valuation reserve		4,782,000
Payable to parent, subsidiaries and affiliates		6,211,675
Funds held under coinsurance		58,351,095
Payable for securities		2,567,477
Total Liabilities		535,375,566
Common capital stock	$ 2,600,000	
Gross paid in and contributed surplus	137,454,246	
Unassigned funds (surplus)	(5,882,681)	
Total Capital and Surplus		134,171,565
Total Liabilities, Capital and Surplus		$669,547,131

John Alden Life Insurance Company
Summary of Operations
For the Year 2003

Premiums and annuity considerations for life and accident and health contracts		$338,286,359
Net investment income		34,958,362
Amortization of interest maintenance reserve		588,264
Commissions and expense allowances on reinsurance ceded		58,770,917
Reserve adjustments on reinsurance ceded		(25,101,503)
Aggregate write-in miscellaneous income:		
Experience refund		53,662,335
Third party administration		4,026,632
Network access and other miscellaneous income		(582,169)
Total income items		464,609,197
Death benefits	$ 7,307,946	
Matured endowments	28,218	
Annuity benefits	61,373	
Disability benefits and benefits under accident and health contracts	214,328,519	
Surrender benefits and withdrawals for life contracts	177,025	
Interest and adjustments on contract or deposit-type contract funds	28,492	
Increase in aggregate reserves for life and accident and health contracts	1,113,799	
Subtotal	223,045,372	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	53,268,632	
Commissions and expense allowances on reinsurance assumed	(1,301)	
General insurance expenses	112,515,168	
Insurance taxes, licenses, and fees excluding federal income taxes	15,448,638	
Increase in loading on deferred and uncollected premiums	792	
Total deductions		404,277,301
Net gain from operations before dividends to policyholders and federal income taxes		60,331,896
Dividends to policyholders		31,433
Net gain from operations after dividends to policyholders and before federal income taxes		60,300,463
Federal income taxes incurred (excluding tax on capital gains)		19,704,168
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		40,596,295
Net realized capital gains, less capital gains tax		166,233
Net income		$ 40,762,528

John Alden Life Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance			$332,714,601
Net investment income			35,544,842
Miscellaneous income			114,918,732
Total			483,178,175
Benefits and loss related payments		$236,634,590	
Commissions, expenses paid, and aggregate write-ins for deductions		181,574,530	
Dividends paid to policyholders		31,433	
Federal and foreign income taxes paid		19,530,000	
Total deductions			437,770,553
Net cash from operations			45,407,622
Proceeds from investments sold, matured, or repaid:			
Bonds	$128,469,286		
Stocks	3,301,838		
Mortgage loans	6,330,545		
Other invested assets	869,176		
Net gains (losses) on cash and short-term investments	(2,053,092)		
Miscellaneous proceeds	3,045,422		
Total investment proceeds		139,963,175	
Cost of investments acquired (long-term only):			
Bonds	148,139,196		
Stocks	12,557,854		
Other invested assets	1,985,740		
Miscellaneous applications	703,198		
Total investments acquired		163,385,988	
Net decrease in policy loans and premium notes		(466,740)	
Net cash from investments			(22,956,073)
Cash from financing and miscellaneous sources:			
Dividends to stockholders		(27,000,000)	
Other cash applied		(655,098)	
Net cash from financing and miscellaneous sources			(27,655,098)
Reconciliation			
Net change in cash and short-term investments			(5,203,549)
Cash and short-term investments, December 31, 2002			32,140,460
Cash and short-term investments, December 31, 2003			$ 26,936,911

John Alden Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets			$669,547,131
Less liabilities			535,375,566
Adjusted surplus			134,171,565
Annual premium:			
Individual life and health	$ 21,305,277		
Factor	15%		
Total		$ 3,195,792	
Group life and health	319,271,135		
Factor	10%		
Total		31,927,113	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		798,264	
Compulsory surplus (subject to a $2,000,000 minimum)			35,921,169
Compulsory surplus excess			$ 98,250,396
Adjusted surplus (from above)			$134,171,565
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			46,697,519
Security surplus excess			$ 87,474,046

John Alden Life Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total capital and surplus during the previous five-year period as reported by the company in its filed annual statements. The data reported for 2002 and prior years has been restated to reflect aggregate data for the company subsequent to the 2003 statutory merger of Houston National Life Insurance Company into John Alden Life Insurance Company.

	2003	**2002**	**2001**	**2000**	**1999**
Capital and surplus, beginning of year	$120,669,582	$136,364,857	$131,206,103	$113,894,931	$171,604,838
Net income	40,762,528	36,406,734	8,699,179	16,157,130	19,400,623
Change in net unrealized capital gains or (losses)	(4,372)		(92,909)	(645,284)	643,489
Change in net unrealized foreign exchange capital gain or (loss)	(168,783)	383,187			
Change in net deferred income tax	217,664	1,054,365	(13,893)		
Change in nonadmitted assets and related items	(1,189,839)	(2,167,293)	959,799	(23,066)	3,464,040
Change in asset valuation reserve	1,781,585	2,641,330	526,182	1,822,392	3,850,490
Change in surplus notes					(32,000,000)
Cumulative effect of changes in accounting principles			614,000		
Change in surplus as a result of reinsurance	(896,800)	(1,013,598)	7,266,396		
Dividends to stockholders	(27,000,000)	(53,000,000)	(12,800,000)		(54,934,010)
Write-ins for gains and (losses) in surplus:					
Change in payable on surplus debenture					2,584,984
Write-off of capitalized debenture fee					(719,523)
Capital and surplus, end of year	$134,171,565	$120,669,582	$136,364,857	$131,206,103	$113,894,931

John Alden Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System results for the previous five-year period are summarized in the following table. The unusual IRIS results during the period are denoted with asterisks, and are discussed following the table of IRIS data.

	Ratio	2003	2002	2001	2000	1999
#1	Net change in capital & surplus	13%	(8)%	1%	17%	(36)% *
#2	Gross change capital & surplus	13	(8)	1	17	(36) *
#3	Net income to total income	9	8	2	3	3
#4	Comm. and Exp to Prem. and Deposits			Discontinued		
#5	Adequacy of investment income	267	258	271	228	257
#6	Nonadmitted to admitted assets	1	1	0	0	0
#7	Total real estate & mortgage loans to cash & invested assets	6	7	7	11	14
#8	Total affl. investments to capital & surplus	2	3	2	2	2%
#9	Surplus relief	43 *	46 *	31 *	81 *	95 *
#10	Change in premium	1	188 *	(74) *	(12) *	(8)
#11	Change in product mix	0.3	10 *	10 *	0	1
#12	Change in asset mix	0.4	0	1	1	4
#13	Change in reserving ratio	(99) *	(99) *	0	(25) *	(22) *

The IRIS ratio data indicated above reflect financial information reported by the company that include the financial effects of the company's 50% coinsurance reinsurance as reported by the company. IRIS ratio results that directly relate to the company's recognition of the 50% coinsurance include the 1999 result for ratio #10, Change in Premium, and the unusual results for ratio #9, Surplus Relief, in each of the years under examination. The examination determined that the 50% coinsurance treaties function as stop-loss reinsurance, and are proportional reinsurance in form only. Further examination discussion pertaining to the 50% coinsurance agreements is included in the findings section of this report captioned "Reinsurance Contracts."

IRIS ratios #1 and #2 analyze, respectively, the percentage change year-to-year in net and gross capital and surplus. The unusual results for ratio #1 and ratio #2 in 1999 were due to payment of a $90 million dividend to the company's sole shareholder.

The unusual result for ratio #10, Change in Premium, in 2000 was due to the company's establishment of a reinsurance agreement with Lincoln National Reinsurance for the sale of the Alden Risk Management Services line of business, which resulted in a decrease in JALIC net premiums written. The unusual results for ratio #10 in 2001 and 2002 were due to the company's entry into a reinsurance agreement with Hartford for 100% modified coinsurance and sale of the company's individual life insurance and annuity business, and the corresponding decrease in JALIC net premium written.

The unusual results for ratio #11, Change in Product Mix, in 2001 and 2002 were due to the company's sale of its life insurance and annuity business to Hartford.

The unusual result for ratio #13, Change in Reserving Ratio, in 1999 was due to the 1999 return to reserve liabilities for normal operations following large increases in life reserves in 1998 that resulted from unusual business recapture transactions. The unusual result for ratio #13 in 2000 was due to policy surrenders that were $2.2 million in excess of related net premiums in 2002, which offset other 2002 reserve increases and resulted in a reserving ratio of 0% and a change in reserve ratio of (25)%. The unusual result for ratio #13 in 2002 was due to the calculation results in the 2001 statutory annual statement Analysis of Assets and Exhibit 1 that relate to the 2001 100% coinsurance reinsurance cession due to Hartford. The unusual result for ratio #13 in 2003 was due to the runoff of the company's life insurance and annuity business as a result of the 2001 reinsurance agreement.

Growth of John Alden Life Insurance Company

Year	Admitted Assets	Liabilities	Surplus
2003	$669,547,131	$535,375,566	$131,571,565
2002	653,394,822	532,725,240	118,069,582
2001	696,159,577	566,430,979	107,128,598
2000	703,383,708	574,980,581	105,803,127
1999	774,475,733	634,760,151	87,115,582
1998	899,807,427	729,402,570	147,804,857

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2003	$4,193,925	$2,343,936	$1,849,989
2002	4,268,400	2,531,695	1,736,705
2001	4,934,126	2,969,609	1,964,517
2000	5,936,250	3,633,215	2,303,035
1999	8,257,347	5,314,540	2,942,807
1998	9,113,666	6,386,927	2,726,739

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combine Loss and Expense Ratio
2003	$322,040,462	$218,912,014	$ (5,751,197)	$129,218,466	108.1%
2002	311,435,132	204,127,756	5,569,230	142,121,393	112.9
2001	379,304,546	259,379,719	459,097	148,821,395	107.8
2000	413,061,509	326,600,261	(12,137,054)	145,534,521	109.0
1999	463,735,957	365,196,287	(15,274,676)	191,358,407	116.8
1998	510,541,708	421,247,709	327,962	208,152,003	123.3

The above historical financial data as reported by the company includes the financial effects of the company's 50% coinsurance agreements as reported by the company. The examination determined that the 50% coinsurance treaties operate as stop-loss reinsurance contracts, and are proportional reinsurance in form only. In 2003, the company reported ceded premiums of $321,866,825 and ceded loss reserves of $58,351,095 under the disallowed reinsurance accounting treatment. Further examination discussion pertaining to the 50% coinsurance agreements is included in the findings section of this report captioned "Reinsurance Contracts."

Reconciliation of Surplus per Examination

The examination did not result in any examination adjustment of reported account balances.

Examination Reclassifications

	Debit	Credit
Funds held under reinsurance	$58,351,095	$
Aggregate reserve for accident and health contracts		58,351,095
Total reclassifications	$58,351,095	$58,351,095

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The company redomiciled to Wisconsin in 2002, and the current examination is the first financial examination of the company performed by the Commissioner. This report will not address company compliance with specific recommendations of the previous examination.

Summary of Current Examination Results

Biographical Disclosures

Pursuant to s. Ins 6.25 (5), Wis. Adm. Code, an insurer is required to file biographical disclosures for newly appointed or elected directors and executive officers within 15 days following their appointment or election. During the examination period the company appointed one new senior executive officer for whom the company did not file required biographical information. It is recommended that the company file biographical information for newly appointed officers and directors within 15 days of their appointment, in compliance with the requirement of s. Ins 6.25 (5), Wis. Adm. Code.

Financial Reporting—Executive Compensation

Section 611.63 (4), Wis. Stat., and Wisconsin's statutory annual statement instructions require that an insurer file a Report on Executive Compensation as a supplement to the insurer's statutory annual financial statements. The Report on Executive Compensation is a three-part form in which an insurer is to provide detailed information regarding individual officer and employee compensation, individual directors' compensation, and total aggregate annual compensation. The company completed Part 1 of the 2003 Report on Executive Compensation but did not report information for Part 2 or Part 3. It is recommended that the company complete and file detailed disclosure for each of the separate parts of the Report on Executive Compensation, in compliance with Wisconsin statutory financial statement instructions and s. 611.63 (4), Wis. Stat.

Reinsurance Contracts

Fortis Insurance Company and John Alden Life Insurance Company have each entered into reinsurance agreements which are written as 50% coinsurance on a funds-withheld basis, and cede approximately 50% of the companies' accident and health premiums and associated life coverages to reinsurers indicated in the table below. As funds-held agreements, all of the assets and liabilities remain with the ceding insurers.

2003 Business	FIC		JALIC	
	Reins %	Premium Ceded	Reins %	Premium Ceded
Generali USA Life Reassurance Co.	10	$111,988,713	6	$ 38,624,019
The Manufacturer's Life Ins. Co. (USA)	20	223,977,425	17	173,808,085
London Life Reinsurance Co.	20	223,977,425	27	109,434,721
Total	50	$559,943,563	50	$321,866,825
Expense and Profit Charge		$ 3,231,434		$ 1,953,571

The contracts establish a target combined ratio of 94%. In the event that the combined ratio is 98% for any three-month period, or 96% for any six-month period, or 94% for any twelve-month period, revised premiums would be implemented by the company as soon as practical to achieve the targeted combined ratio.

The following table lists the combined ratios reported on the reinsurance agreements for the past five years. The amount reported for 2004 is a rolling twelve-month ratio through September.

	FIC	JALIC
2000	89.3%	96.7%
2001	85.1	87.6
2002	79.3	83.1
2003	78.2	83.9
2004	71.2	78.2

The reinsurance agreements have an experience refund which returns all of the profits less an expense and profit charge based on premiums ceded of .58% for FIC and .61% for JALIC as long as the combined ratio on the business ceded is less than 98%. For combined ratios between 98% and 100% the profit commission is reduced so that the ceding company and the reinsurers share the profits equally. Coverage under the agreements is provided by the reinsurers when the combined ratio is between 100% and 110% where the reinsurers would pay their participating share (50%) of the losses and expenses. A separate stop-loss premium of .5% of premium ceded is paid by the reinsurers to FIC and JALIC as compensation for the 110% cap on coverage. FIC and JALIC report this stop-loss premium as reinsurance assumed on their annual statements, even though the subject premium being assumed is on policies directly written by FIC and JALIC and separate assumption reinsurance agreements were not established.

The companies each reported the experience refund as miscellaneous income in the Summary of Operations. The following table represents the experience refunds reported in the companies' financial statements on business reinsured. The amounts reported for 2004 was through September 30.

	FIC	**JALIC**
2000	$ 46,021,055	$18,467,117
2001	61,952,355	41,628,576
2002	100,659,099	51,808,739
2003	125,685,558	53,662,335
2004	129,999,563	44,972,018

In the event that the experience refund for any period is negative, it is carried forward at interest until it is paid back through future profits. It appears, depending on the method of termination, that payment for a negative profit commission would be due from FIC and JALIC to the reinsurers.

Risk transfer under the agreements occurs at a 98% combined ratio. Coverage is limited to when the combined ratio is between 100% and 110%. Considering that the combined ratio of the block of business is significantly less than the point at which the reinsurers would participate and that there are provisions in the agreements which address higher loss ratios with rate increases, it is questionable whether the contracts transfer any significant amount of risk. In addition, the contracts cede 50% of the premium to provide coverage for 5% (half of the range between 100% and 110%) of the losses. The agreements in practice work more like a stop-loss agreement than coinsurance. The benefit of the agreements being structured as coinsurance agreements rather than a stop-loss agreement is that FIC and JALIC significantly reduce their reported net premium, which results in lower required capital for Risk Based Capital and Compulsory and Security Surplus. The reinsurance agreements do not misstate total liabilities or surplus since the reserve credit taken for the 50% coinsurance is offset by the additional liability "Funds held under coinsurance."

SSAP 61 Life Deposit Type and Accident and Health Reinsurance and FASB Statement 113 Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts address reinsurance agreements. SSAP 61 indicates that FASB Section 113 is adopted with modification. None of the seven modifications listed in SSAP 61 include differences between GAAP and statutory accounting with regard to the standards for evaluating reinsurance transfer of risk, and the guidance in FASB Statement 113 is applicable to evaluating the 50% coinsurance agreements.

FASB Section 113 requires that 1) the reinsurer assume significant insurance risk under the assumed portions of the underlying contracts, and 2) it must be reasonably possible that the assuming entity may realize a significant loss. The company provided an analysis performed by their auditors at the time of entering into the agreements.

For the first test, it was indicated that the requirements do not require an exact correlation of results, but some correlation is expected. The analysis determined if the treaties were treated as a stop-loss treaty, once the combined ratio exceeded 100%, the reinsurer would share in the losses, thus meeting the requirement. For the second test, it was indicated that the reinsurer could incur a significant loss at a combined ratio of 110%, their maximum exposure. (This is becoming increasingly unlikely as the table above has shown combined ratio has significantly decreased in the past four years.)

The possible scenario identified is that the combined ratio would spike in the last quarter of the year and there would be not enough time to take remedial action on the premium rates to address the increased loss history. (This does not address the fact that the negative result is used as a carry-forward amount in determining future experience refunds.) It was also indicated that the reinsurers would likely cancel the contracts if the combined ratio got closer to 100%. The ultimate conclusion is that for GAAP purposes, the agreements would qualify for reinsurance accounting under FASB Statement 113 only as stop-loss and that only the expense and profit charge should be recognized as the ceded premium. Analysis indicated that the only impact to surplus is the expense and profit charge. The company has reported the reinsurance as stop-loss on its GAAP statements but as proportional coinsurance on its statutory statements.

The examiners' review as well the company auditor's GAAP basis analysis document that the economic substance of the 50% coinsurance agreement is much more closely aligned with that of an excess of loss reinsurance agreement. Therefore, the examination does not consider the agreements to be 50% coinsurance.

As a result of the disallowance of the company's accounting treatment for the 50% quota share agreements, the examination found that the company misclassified $58,351,094 "Aggregate reserve for accident and health contracts" as the liability "Funds held under coinsurance." This misclassification did not change total liabilities or capital and surplus.

As noted above, the agreements provide significant premium leverage which affects capital requirements, as shown in the following table. The pro-forma Risk Based Capital amount is an estimate of the actual amount as it may not have considered all of the changes that retaining the ceded premium would have affected. In neither case would it result in FIC or JALIC failing Compulsory Surplus or being at a Risk Based Capital action level.

Risk Based Capital as a Percentage of Authorized Control Level

	FIC	**JALIC**
Risk Based Capital as Filed	800%	1,013%
Pro-Forma Risk Based Capital	486	769
Excess Compulsory Surplus as Filed	$67,604,228	$98,250,398
Pro-Forma Excess Compulsory Surplus	41,714,980	65,337,482

In December 2004 FIC and JALIC terminated their 50% coinsurance agreements effective December 31, 2004. Due to the termination of the agreements subsequent to examination fieldwork, the examination did not make a recommendation regarding the agreements.

Network Security Violation Monitoring

JALIC does not maintain a log of network security violations. The company's IT system provides three security exceptions (e.g., three chances to type a log-in password) after which the user is rejected for 90 days absent administrator assistance. Company personnel indicated that the large volume of violations (e.g., numerous users forget passwords, etc.) would require a large amount of memory to retain a log that would be recorded, and that the company would have to maintain a dedicated server to track such exceptions.

Monitoring is an important detection control for identifying potential security breaches and abuse of privileges. Included in monitoring is event monitoring, which includes detecting and reacting to unauthorized access attempts, evaluating the nature of unusual access patterns, and analyzing unusual changes in security definitions and rules. Monitoring of logs can include the reporting and analysis of unauthorized sign-on attempts, unauthorized attempts to access resources, and unauthorized access to view or change security definitions and rules. It is recommended that the company establish and maintain a procedure to monitor network security violations so as to ensure the integrity of authorized user access to the company’s information technology resources.

VIII. CONCLUSION

John Alden Life Insurance Company is a stock life insurance company that principally markets accident and health insurance for individual and small group medical coverages. During the period under examination, the company exited the long-term care insurance market through a 100% coinsurance treaty. The company exited the individual life insurance and annuity market by ceding its existing policies through a 100% modified coinsurance reinsurance treaties.

The examination determined that the company's 50% coinsurance reinsurance agreements for accident and health policies transfer risk on the basis of stop-loss provisions and are not proportional in nature. The company's accounting recognition of the reinsurance agreements as 50% coinsurance resulted in understatement of net premiums written and minimum required capital and surplus calculations during each of the years under examination. The examination determined RBC at December 31, 2003, was 769% of authorized control level instead of 1,013% of authorized control level reported. The examination reclassified $58,351,095 from "Funds held under coinsurance" to "Aggregate reserve for accident and health contracts." The company continues to exceed the minimum capital and surplus requirements and RBC requirements after the examination results. The company terminated the 50% coinsurance treaties effective December 31, 2004, and the examination did not make a recommendation regarding the agreements.

The company redomiciled to Wisconsin in 2002, and the current examination is the first financial examination of the company performed by the Commissioner. The current examination resulted in three recommendations, summarized in Section IX of this report.

The examination determined that, as of December 31, 2003, the company's total admitted assets per examination were $669,547,131, total liabilities per examination were $535,375,566, and surplus per examination was $131,571,565.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 30 - Biographical Disclosures—It is recommended that the company file biographical information for newly appointed officers and directors within 15 days of their election or appointment, in compliance with the requirement of s. Ins 6.25 (5), Wis. Adm. Code.

2. Page 30 - Financial Reporting—Executive Compensation—It is recommended that the company complete and file detailed disclosure for each of the separate parts of the Report on Executive Compensation, in compliance with Wisconsin statutory financial statement instructions and s. 611.63 (4), Wis. Stat.

3. Page 35 - Network Security Violations Monitoring—It is recommended that the company establish and maintain a procedure to monitor network security violations so as to ensure the integrity of authorized user access to the company's information technology resources.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Jerry C. DeArmond	Policy and Claim Reserve Specialist
Randy Milquet	Data Processing Audit Specialist
Tim Vande-Hey	Data Processing Audit Specialist
Tom Janke	Insurance Financial Examiner
Russell L. Lamb	Insurance Financial Examiner
Carina Toselli	Insurance Financial Examiner
Thomas W. Thomas	Insurance Financial Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge